GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA

STARRED QUESTION NO:220
ANSWERED ON:31.07.2017
Violation of Contract Agreement in KG Basin
Devi Smt. Rama;Yadav Shri Laxmi Narayan

Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

(a) whether cases of violation of the contract/agreement signed for oil and gas production in Krishna Godavari (KG) Basin have been reported/come to the notice of the Government recently;
(b) if so, the details thereof along with the number of such cases reported during the last three years and the current year;
(c) the details of the action taken by the Government in this regard along with the rules under which the said action has been taken; and
(d) the outcome of the said action taken by the Government?

Answer

MINISTER OF STATE (INDEPENDENT CHARGE) IN THE MINISTRY OF PETROLEUM & NATURAL GAS (SHRI DHARMENDRA PRADHAN)
(a) to (d) A statement is laid on the table of the house.
STATEMENT REFERRED TO IN REPLY OF PARTS (a) TO (d) OF LOK SABHA STARRED QUESTION NO. 220 TO BE ANSWERED ON 31.07.2017 REGARDING VIOLATION OF CONTRACT AGREEMENT IN KG BASIN
(a) to (d): There are 10 blocks under Production Sharing Contracts (PSC) in KG Basin. As per the provisions in Article 25 of PSC, statutory financial audit is conducted on annual basis through qualified practicing chartered accountants. Copy of the audited accounts is submitted to the Government within 30 days after approval of Management Committee. In addition, as per Section 1.9 of Accounting Procedure (AP) of Production Sharing Contract (PSC), audit of PSC is being conducted by Government appointed auditor to ascertain the compliance of PSC provisions by the Operator.
Under Section 1.9.4 of AP, audit exceptions are notified to the Contractor who is required to comply within 120 days. Some of the exceptions include non submission/late submission of reply, non submission of budget against actual expenditure, procurement procedures in violation of PSC, non recoverable cost, misallocation of expenses, delay in adhering given timelines, non submission of statement on time, non appointment/delay in appointment of auditor etc.
Compliance report/replies to audit exceptions received from the operator are examined on merit. Unsettled audit exceptions are again communicated to Operator for compliance. This is ongoing process. Based on the financial implication of the audit exception and not-compliance by contractor, Government issues notices for recovery and disallowance of non-recoverable cost.
In one of the blocks, violation of the contract / agreement signed by the Government has been brought out in C&AG Audit Report No 11 of 2016 presented in the Parliament in August, 2016. Inter-alia some of Audit observations/findings and Action taken by Government are as under:
i) Underutilization of gas handling facilities due to non-achievement of production as envisaged in the approved Development Plan. Government disallowed cost recovery of US $ 2.756 billion. The contractor invoked arbitration which is still pending for adjudication.
ii) Payment of US$ 10.13 Million Uptime Bonus for chartering Floating Production Storage and Offloading (FPSO). Government has directed the operator to pay the US $ 2.35 million toward loss of profit petroleum to the Government.
iii) Relinquishment of excess area held by Contractor. The Government issued an order dated 30.10.2013 directing the operator to relinquish the excess contract area in compliance with Article 3.11 of PSC. The Contractor has relinquished the excess area.
In accordance with the provisions of Article 10.15, Article 11.2 and Article 12, contractor is under contractual obligation to apply to Directorate General of Hydrocarbon (DGH) for unit development in case commercial discovery extends beyond the development area. For drawl of gas by the contractor from contiguous block in violation of contractual obligation under PSC, Government issued Notice dated 03.11.2016 to the contractors of block KG-DWN-98/3 claiming provisionally an amount of US $ 1.552 billion along with interest upto 31.03.2016 towards restitution and an amount of US $ 174.9 million towards additional profit petroleum. The contractor has invoked arbitration, which is pending adjudication.
****